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Most Advisors Planned for Student Loan Payments, Despite Biden Plan

Personal feelings aside, most advisors had already factored into their financial plans the possibility that Biden's student loan forgiveness plan would not survive.

Rob Burgess | Jun 30, 2023

The Supreme Court on Friday overturned President Joe Biden's plan to provide student loan relief to millions of borrowers. And whatever their personal feelings were, most advisors said they had factored the possibility of such a ruling into client conversations.

"While having $10,000 or more of student loans wiped away would have been nice for many, it would have been a pleasant surprise," said Spencer Stephens, owner of Rooted Interest, a financial planning firm in Salt Lake City. "I never recommend making pleasant surprises part of a financial plan. It is great if it happens, but it should be the exception, not the rule. Student loan forgiveness would have erased the remaining balance for many people, but for most, it simply would have lowered the amount they owed and thus

lowered their monthly payments. So it is just going back to the original plan of how to navigate the debt in the best way possible."

Ryan Salah, a financial planner with Capital Financial Partners in Baltimore, said in any conversations they've had with clients who have student loans, they always assumed those payments would continue.

Jay Zigmont, a financial planner and founder of Childfree Wealth, said many of their clients were waiting on this decision before they made any moves on their student loans. Some had money set aside that will now just go ahead and pay off their loans, while others will now need to work through the repayment programs to make those payments affordable.

"We never plan for clients to get handouts from government or any other organizations," said Michael J. Gauthier, CEO of Strategic Income Group, a financial planning firm in Arizona. "Student loans are just that—loans and a financial agreement where the borrower agrees to pay the loan back. That is always the standard in our planning practice to prioritize these loans, mortgage loans and other loans or debt in their plan. We will recommend to have clients pay off all personal loans first, then prioritize student loans and mortgages as the final loans to be paid off."

Francisco Ayala, a financial planner with The Coleridge Group in Phoenix, said while they were not counting on this forgiveness passing muster, they had identified areas they would have put this "free money" toward if it did, including high-interest debt, emergency funds and investments. Now that the decision has been handed down, along with adjusting discretionary spending and reevaluating the client's debt repayment strategy, Ayala's firm was also advising clients to explore whether a stand or income-driven repayment plan might work best for them.

Angela M. Bender, managing partner of AMJ Financial Wealth Management in Leesburg, Va., said they have always taken the conservative view that the payments would resume, and that there would not be forgiveness of some loan balances.

Bender said when they have been assisting parents and younger clients, they have been encouraging them to include these expenses in their budgets and to use the high-yielding savings accounts as a place to put those payments. That way, if the court did not vote in favor of forgiveness, then they could make a lump sum payment to the principal of their highest interest expense student loan. In some cases, they also encouraged tax planning strategies with 529 plans.

Desiree Kaul, a planner at MainStreet Financial Planning in Satellite Beach, Fla., said with the announced resumption of accrued interest on federal

student loan balances beginning Sept. 1, they had already advised clients to begin preparing for that. They’ve recommended paying the full balance before then if possible, examining their budgets for discretionary spending and reviewing payment plans with servicers.

Kris Maksimovich, a financial advisor at Global Wealth Advisors in Lewisville, Texas, said they had prepared clients for the worst-case scenario that loan payments would start again. In their planning they continued to budget for loan payments, saving the difference to eventually apply to the loan balance if and when it was required. Maksimovich said now that interest will begin accumulating again in September and payments are due in October, those that accumulated that difference are in a better position to begin making payments or even pay off a remaining balance.

Robert J. Falcon, president and founder of College Funding Solutions and a financial advisor and founder of Falcon Wealth Managers in Concordville, Pa., said like any other investment, clients can overpay for college. Falcon said his clients were unaffected by this Supreme Court decision because they knew the amount of student loan debt they would take on before their students started college, as he had helped them to identify colleges that were a good fit financially.

Jeremy Bohne, a financial advisor with Paceline Wealth Management in Boston, said while it was important for borrowers to take advantage of any relief that might benefit them, clients shouldn’t make significant financial decisions that count upon loan relief for them to work.

Tim Melia, a certified financial planner with Embolden Financial Planning in Seattle, said now that the pause on student loan payments had ended, it was a good time for advisors to revisit with clients their overall plans, rates and payment amounts of all debts, including auto loans, credit cards and mortgages.

He recommends comparing the interest rate on all loans, taking into account how the student loan interest deduction impacts the real rate of interest paid on a student loan. Melia said one way to structure loan repayments would be to pick the highest rate of interest and focus on paying that down first, making minimum payments on all debts and anything extra toward the higher interest rate. Another approach would be to identify the smallest loan and pay off the balance as quickly as possible, then refocus any extra capacity for principal payments on the next-highest balance.

In addition, Melia said as borrowers prepare to restart student loan payments, they may want to consider how the SECURE Act 2.0 will allow employers to make retirement plan matches based on student loan

payments starting in 2024. This could change the priority or timing of repayment on student loans. This would probably require checking in with the employer to see what options would be available.

Some financial advisors were disheartened by the decision. James Veal, a financial planner with JRV Wealth Management Group in Philadelphia, said he was “totally disappointed” with this news as it would have been a huge relief for Black and minority students.

Meanwhile, Michael C. Perry, president of Retirement Advisors in Dallas, said many of his clients were “grateful” for the ruling.

“They were angered at the thought of loan forgiveness, for they planned, saved and assured that their children graduated without student debt,” he said. “And further upset at the fact that they would now have to pay for the forgiveness through higher taxes.”